

United States Senate

WASHINGTON, DC 20510

March 2, 2004

Honorable Ann M. Veneman
Secretary of Agriculture
U.S. Department of Agriculture
Washington, D.C. 20250

Dear Secretary Veneman:

We are writing to express our concern regarding the proposed new Standard Reinsurance Agreement (SRA) issued by the Risk Management Agency (RMA). In our view, RMA is pursuing a course, both substantively and procedurally, that threatens the viability of the crop insurance program and the goal of having a new SRA in place for the 2005 reinsurance year.

As you know, crop insurance is not an option for most U.S. producers – it's a necessity. Both producers and their lenders have come to view this risk management tool as an essential component of today's farming operations. Furthermore, significant progress has been made in recent years to strengthen the crop insurance program for the benefit of both producers and taxpayers. For example, acres insured under the program have more than doubled over the past decade, from fewer than 100 million acres in 1994 to 217 million acres in 2003. In 2003, 75 percent of eligible acres were insured, and of that amount, fully 85 percent were covered by "buy-up" policies (compared to only 48 percent in 1995) – evidence of the hard-won gains that have made crop insurance a more effective risk management tool for producers.

From the taxpayer's perspective, the loss ratio under the program has averaged 1.05 over the past 10 years, and 2003 will likely close with a loss ratio of 1.0 or less. Perhaps equally important, as the program improves in its scope and coverage levels, demands on Congress to enact ad hoc relief in response to natural disasters have decreased.

Unfortunately, it is these very gains that are jeopardized by the proposed new SRA. To cite a few examples: RMA is proposing to require companies to surrender 25 percent of their underwriting gains, to eliminate the Developmental Reinsurance Fund, and to empower the agency with an unprecedented level of unilateral authority regarding program determinations. As one major farm organization concluded in its detailed comments to RMA, "The SRA as drafted is, in fact, so onerous that a number of private companies and reinsurers may abandon their participation in the program, leaving farmers and ranchers with less competitiveness than they have today."

For these reasons, we ask that you direct RMA to see that a new SRA is put in place for the 2005 reinsurance year that builds on the substantial progress to date and ensures the viability of the crop insurance program well into the future. To that end, and

Letter to Secretary Veneman
March 2, 2004
Page Two

given that the current SRA expires on June 30, we wish to know when a new draft SRA will be issued, and when RMA expects to have a new SRA in place.

Thank you for your consideration. We look forward to hearing from you.

Sincerely,
